

I. Project Purpose

Problem. Members of New York City's Hispanic and African-American communities are more likely to start businesses than ever before, their access to credit is severely limited. The Small Business Administration reports that only 15% of local African-American and 33% of Hispanic proprietors received commercial bank loans in 2001, as compared with 54% of others.¹ David Blanchflower, Phillip Levine and David Zimmerman showed for the National Bureau of Economic Research, that black applicants are rejected for credit twice as frequently as their white counterparts, "even after controlling for differences in credit-worthiness and other factors" between the groups.² The National Community Reinvestment Coalition similarly showed that Hispanic applicants are rejected 1.5 times as often.³

Besides discouraging black and Hispanic entrepreneurs from seeking traditional financing, these disparities prevent them from improving businesses central to revitalizing many of New York's most marginalized neighborhoods. In these places, including parts of the Bronx, Harlem, Bedford-Stuyvesant and Crown Heights, unemployment rates top 18% and over 60% of the population lives in poverty.⁴ While numerous development strategies, such as affordable housing and work readiness programs have been implemented, none have proven as successful at raising incomes and stimulating employment as small businesses helped by credit. In fact, studies show that self-employed people increase their earnings by 21%--and create an additional job—for each loan they receive. By addressing the credit gap, ACCION New York will empower black and Hispanic entrepreneurs to become agents of meaningful growth and change in their communities.

Solution. To facilitate black and Hispanic entrepreneurs' access to loans, ACCION New York will create a mobile lending initiative called LendRight. By outfitting our loan officers with wireless equipped handhelds and access to our Comprehensive Application Tracking Software, LendRight will enable them to work directly from New York's African-American and Hispanic neighborhoods—and even serve busy entrepreneurs directly from their homes or places of employment.

Comprehensive Application Tracking Software (CATS) is a web-based contact management system especially developed for the ACCION network of lenders. CATS builds upon our previous efforts to create a fully integrated front-end and back-end loan tracking system. By linking our activities to the internet, however, CATS will fuel an initiative that allows ACCION New York's loan officers to:

- Instantly enter, transfer and access clients' information (including contact details, reference names and payment data) through a centralized network
- Obtain credit reports
- Recommend loan products and payment plans through an interactive tool
- Customize application forms and checklists
- Analyze and pre-approve requests
- Flag entrepreneurs for both electronic and personalized follow-up
- Contribute to and update a web-based community clearinghouse that provides links, resources and customized e-mail alerts to both entrepreneurs and the general public

Because LendRight is community-based, ACCION New York's loan officers will work intensively with neighborhood organizations to plan, execute and evaluate its implementation. These include long-standing partner groups like community financial institutions, local government agencies and economic

¹SBA, as quoted by Minority Business Development Agency and Milken Institute. *The Minority Business Challenge: Democratizing Capital for Emerging Domestic Markets*. September 25, 2000.

² Blanchflower, David G., Phillip B. Levine and David J. Zimmerman. *Discrimination in the Small Business Credit Market*. National Bureau of Economic Research Working Paper 6840, December 1998.

³ "Lenders Decrease Lending to Minority and Low- and Moderate-Income Borrowers and Communities." 2002 press release by the National Community Reinvestment Coalition.

⁴ Census 2000.

development associations throughout New York (see Appendix- Community Partners). LendRight will enable us to create a replicable and truly 'wireless' model for democratizing access to credit: with it, ACCION New York will empower entrepreneurs to improve conditions for their businesses and neighborhoods.

Outcomes. LendRight will improve prospects for minority entrepreneurs and their neighborhoods in several important ways. First, by allowing our loan officers to base themselves in Hispanic and African-American communities, it will enable ACCION New York to establish meaningful relationships and build trust among small business owners that Blanchflower's associates showed might otherwise avoid traditional financial institutions. It removes the potential for intimidation and confusion that Hispanics and African-Americans sometimes report experiencing at commercial banks, and enabling our staff to reach those who find that logistics, like scheduling childcare, form barriers to visiting credit-granting institutions.⁵

By overcoming obstacles that minorities encounter while attempting to obtain credit, LendRight will enable them to get much-needed financing, improve their businesses, and ultimately extend the benefits of increased profitability to their families and communities. More specifically, we will (1) increase the number of African-American and Hispanic entrepreneurs that receive credit, (2) enable them to raise their incomes an average of 21% per loan and (3) contribute to neighborhood revitalization by creating jobs through this initiative. See the chart in the evaluation section that shows the projected number of Hispanic and African-American borrowers we expect to reach over the next three years.

II. Innovation

As a 2002 Seedco study reveals, community economic development organizations have extensively harnessed information technology to improve their in-office capacity. However, few have extended these advances to facilitating client-organization interaction, and improving a nonprofit's services at the point of delivery.⁶ By making technology an integral part of the lending process, LendRight will increase ACCION New York's organizational efficiency while facilitating the granting of credit.

Personalized service. Several nonprofits have successfully pioneered virtual lending initiatives, however. ACCION New York specifically recognizes the programs of Count Me In, America's first online microlender and an organization instrumental to placing capital in the hands of women. By allowing female entrepreneurs to obtain credit from home via the internet, Count Me In continually illustrates how to reach and ultimately serve members of another historically financially marginalized demographic. LendRight builds upon these activities by providing personalized loan officer assistance during the lending process. This enables our staff to establish the rapport necessary for dispelling misinformation and building trust among community members typically weary of financial intermediaries.

On-site lending further performs a valuable function by enabling us to clarify questions and offer customized guidance during the application process. Regardless of whether or not applicants receive credit, the personalized technical assistance, they can freely access while assembling ACCION New York's required financials will increase their economic savvy considerably.

Customized lending. The benefits of LendRight's innovation stem from other sources, too, most notably successful techniques pioneered by our funders and network affiliates. In the *barrios* of Lima and Mexico City, for example, ACCION International has equipped loan officers with Palm Pilots as part of a similar, but less technologically sophisticated, three-year-old program. Based upon their experience and evaluations highlighting ACCION International's loan officers' lack of instant connectivity from the field, ACCION New York developed CATS. Modeled after programs created by

⁵ Luntz, Frank and Jennifer Laszlo Mizrahi. National Community Reinvestment Coalition poll, 2002.

⁶ "The Evolving Role of Information Technology in Community Development Organizations." Prepared by Seedco, 2002.

our private sector supporters, including major retail banking firms like HSBC, Fleet, and Citigroup, CATS will enable LendRight to make on-the-spot recommendations by interactively responding to loan officer input. The targeted materials it will then generate include customized loan payment calculators, customized balance sheets and cashflows, application checklists and reference forms.

Interactive features. LendRight's additional innovative benefits include unique tracking devices modeled on the West Virginia Commission for National and Community Service's new ConnectWV Online Volunteer System, which allows enrolled people to receive "e-notices" about upcoming volunteer opportunities.⁷ By linking CATS to our loan management software, LendRight will extend this idea in several ways. Besides allowing both loan officers and participating entrepreneurs to receive e-mail reminders about impending or late payments, approaching appointments and events, LendRight will enable entrepreneurs to contact ACCION New York to troubleshoot or schedule site visits virtually. It will further enable borrowers to receive customized e-mail information about their particular business needs, including updates about new community resources or programs of interest.

III. Community Involvement

ACCION New York relies heavily upon community contributions to create sustainable methods of fuelling local small business growth. By building upon our existing partnerships and seeking end-user input, LendRight will extend this approach to developing, implementing and evaluating our programs in this respect.

Partnerships. LendRight's implementation will require collaboration with our partners in Hispanic and African-American neighborhoods. Historically, ACCION New York has maintained relationships with numerous organizations in these communities, including:

Community and Government Agencies. To increase minority entrepreneurs' access to credit, ACCION New York will liaise with organizations and government agencies devoted to promoting economic development among minority business owners. A typical partner organization includes CACCI, or the Caribbean-American Chamber of Commerce and Industry. CACCI is a nonprofit devoted to connecting Hispanic, African-American, and Caribbean-American entrepreneurs with important business resources. Our organizations have previously run a reciprocal referral service, and still frequently collaborate to coordinate seminars on small business finance. Through LendRight, CACCI will contribute meeting space for ACCION New York-sponsored events and disseminate information about the initiative. By introducing additional prospects to our respective programs, ACCION New York, CACCI, and the communities that we serve benefit from these activities.

Branch Banks. Partially because many minority small business owners have lower credit scores and less experience than their majority counterparts, they are more frequently rejected when applying for bank loans.⁸ By partnering with community banks, ACCION New York can provide them with the capital they require—and ultimately help them to become 'bankable' by building solid credit histories in the process. Therefore we regularly host seminars on obtaining and maintaining good credit with local banks like Banco Popular, Chase and Fleet. At these events, entrepreneurs learn the rudiments of lending and have the opportunity to troubleshoot, make appointments with loan officers, and initiate our application process. ACCION New York additionally maintains referral agreements with various banks, whereby participating branches refer rejected loan applicants to our staff. For more information about our activities at specific locations throughout the five boroughs, please see the Appendix.

Other Relationships. ACCION New York additionally maintains relations with nonprofits that lease or provide for free to us local office space. In Queens, for example, we rent a desk and telephone from the Jackson Heights Economic Development Corporation (JHEDC) for \$250 per month. These spaces

⁷ West Virginia Commission for National and Community Service. Executive Summary of Technology Opportunities Program Application, 2002.

⁸ Federal Reserve Board Vice Chairman Roger Ferguson Jr. "Economic Progress and Small Business." A speech delivered before the African-American Chamber of Commerce of Western Pennsylvania, October 19, 2002.

provide crucial support—and an important physical base—for loan officers working from the field. They also form the center of our collaborative activities with the organizations we rent from, including the JHEDC. Details of our other leasing agreements are located in the Appendix.

Community Involvement. ACCION New York continually incorporates end-users into the planning, implementation and evaluation of our programs; as a locally-based development organization, we know this inclusion is an important part of promulgating quality programs, building trust and most importantly, empowering low-income entrepreneurs to achieve success.

In 1999, when ACCION New York first studied ways of harnessing information technology to lend efficiently, we commissioned the Roslow Research Group (RRG) to survey Hispanic and African-American members of the City's small business community. After conducting 1,000 random telephone interviews and convening several focus groups of present and prospective ACCION New York borrowers, RRG concluded that over 210,000 minority entrepreneurs lacked access to credit in New York alone. Their recommendations that we devise a mobile lending initiative formed the impetus for LendRight, which later studies and borrower interviews confirmed.⁹ Specifically, minority small business owners requested that ACCION New York construct a lending initiative featuring an accessible staff, quick loan processing and opportunities for troubleshooting and acquiring an economic education during the application process. By enabling loan officers to visit with entrepreneurs, instantly collect and process information and provide valuable on-site technical assistance, LendRight meets these criteria.

To implement and evaluate it, ACCION New York will continue seeking entrepreneurs' input. Already, we have modified our applications to include program feedback. By constantly assessing business owners' needs vis-à-vis LendRight, we will make it more successful, accessible and user-friendly.

Support for End Users. LendRight targets enterprising low-income Hispanic and African-American small businesspeople that live and work in New York's most marginalized neighborhoods. According to a recent survey, 80% of these individuals live below the Department of Housing and Urban Development's Federally-defined poverty line. Many are recent immigrants, large numbers are single parents, and almost all have little formal education. These characteristics combine to form formidable cultural, monetary and logistical barriers to applying for and receiving bank loans.¹⁰

Due to such circumstances, many of these entrepreneurs cannot access capital from conventional sources, a problem that impacts their ability to make business improvements and ultimately positively contribute to their communities. By mobilizing digitizing ACCION New York's patented character-based lending program, LendRight helps these entrepreneurs quickly and conveniently obtain credit while building the repayment histories and financial knowledge necessary for becoming 'bankable'.

Entrepreneurs will access LendRight through

- Events and seminars we hold with our partner organizations
- Bank and community center referral services
- Articles and advertising in neighborhood papers and local shops
- Blockwalking and loan officer representation at area fairs
- Word-of-mouth
- Our website

The digital divide. In the United States, Hispanic and African-Americans are less likely to be computer savvy than whites. In fact, the Census estimates that only 32.8% of black households and 33.7% of Latino households owned computers in 2000—a statistic that reflects compromised productivity and ultimately profitability among minority small businesspeople.¹¹

⁹ Himes, Christina and Lisa Servon. *Measuring Client Success*. Roslow Research Group: Long Island, NY, 2002.

¹⁰ In-house borrower survey, conducted on 100 randomly sampled borrowers. March 17 2002.

¹¹ Census 2000.

LendRight further empowers entrepreneurs with technological tools to improve their efficiency and bridge the digital divide. For example, it allows interested business owners to receive 'e-reminders' about upcoming payments and events through independent e-mail addresses or accounts created with ACCION New York's community partners (see Appendix-Community Partners). Our loan officers will additionally train and troubleshoot with borrowers on the basics of navigating the internet, operating e-mail, and creating spreadsheets for business purposes. While ACCION New York will not provide computers for entrepreneurs' private use, we will inform them of neighborhood organizations offering free or cheap access.

IV. Evaluation and Dissemination

Evaluation. We are constantly evaluating the quality, financial health and operational effectiveness of our program. We will measure our success based on our ability to meet the goals we set for reaching Hispanic and African-American borrowers and in the impact our loans will have on their financial situation as described in the charts below.

<i>PROGRAM STATISTICS</i>					
	Cumulative through 2001	2002 Actual	2003 (projected)	2004 (projected)	2005 (projected)
Number of New Clients	1,270	331	387	458	543
Number of Active Clients (at year end)	NA	588	914	1207	1,516
Total Amount Disbursed	\$9,962,404	\$3,775,766	\$6,290,760	\$8,640,000	\$10,260,000
Total Number of Loans	2,306	458	705	834	990

In addition, the following measures are regularly calculated to evaluate our program's effectiveness:

- Outreach activities (including number and type of entrepreneurs contacted);
- Loan officer productivity in terms of clients served per month;
- Average turnaround times from application to disbursement;
- Delinquency.

Since client feedback plays an important role in shaping ACCION New York's current offerings and future initiatives, we conduct surveys and informational interviews on a regular basis and encourage our partner organizations to do likewise. Only by listening to and incorporating entrepreneurs' suggestions into our programming can ACCION New York help them achieve business success.

More importantly, we have embarked on an internal evaluation which will look at three areas where Accion NY's impact should be visible: **personal, business, and community development**. As means of measuring success of Accion NY's loans and programs, in each of these categories, we will be examining:

- Equity (net assets, liabilities, and debt)
- Cash flow (personal income, business profits, and community income)
- Stability (turn over rate for business, flow of cash in the community, etc.)
- Client Risk (improvement of client's credit and access to other forms of credit)
- Employment (job rate increases at the business and community level)

Based on the Accion International study performed by Himes and Servon, looking at similar measures of success with 44% of their sample coming from ACCION New York clients:

	Equity	Cashflow	Employment
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Personal	<ul style="list-style-type: none"> • Clients showed an average of 38% equity increase. 	<ul style="list-style-type: none"> • 46% of Low-income clients with 2 loans and 54% of clients with three loans experienced an increase in their take-home income. 	Not applicable.
Business	<ul style="list-style-type: none"> • Average increase of 47% in monthly profits. 	<ul style="list-style-type: none"> • 54% of the sample clients experienced business growth. 	<ul style="list-style-type: none"> • Clients with two loans show a 26% increase in jobs per business.
Community	Not available	Not available	<ul style="list-style-type: none"> • 29% of the client sample created jobs in their respective communities.

Highlights of this study includes:

- Over an average of 17 months, ACCION clients experienced an average overall increase in equity from \$929 to \$1,346.
- Lower-income clients showed consistently greater growth rates, where it was shown that monthly profits increased on average by 96%.
- The stronger performance of long-term clients in building equity suggests that building a credit history with ACCION program plays an important role in equity development.

Evaluators. Consistent with our mission and values, COA's accreditation process is designed to facilitate organizational and program improvement. Accreditation is viewed as a structured means of positive organizational change, rather than an adversarial process. Because COA's process is about agency improvement rather than evaluation of specific programs, COA is an organizational accreditor rather than a program accreditor like some of its peers. Achieving the status of accreditation demonstrates that the entire organization has met the highest standards of quality the field has set. COA's goal is to provide the organization with all the tools needed for organizational success. This success depends on sequential, demonstrable service improvement until compliance with standards is achieved. Almost every organization, even those recognized as exemplary, will experience growth and change.

Beginning with the self-study process, an organization is given the framework for demonstrating compliance with COA's standards. Additional opportunities are provided when the review team is on-site and during the response period after the organization receives its preliminary report. Finally, if areas are identified as needing remediation, the organization is given a reasonable time frame for making the changes.

One unique aspect of COA's accreditation process is the self-guided, detailed self-study through which the organization undergoes a highly effective quality improvement process and strives to demonstrate to COA and to the peer review team that it is in compliance with the standards. This self-study process takes between four and eight months and involves participatory self-evaluation and change, where needed. Most organizations complete the entire accreditation process within 12 months—the timeline runs from the point of application to the point of decision-making. An organization facing an internally or externally imposed deadline may opt for an accelerated timeline.

Dissemination. ACCION New York will disseminate information about LendRight in several ways, highlighting advantages that include:

- *Higher case loads.* By enabling loan officers to work full-time from New York's Hispanic and African-American communities, LendRight will increase organizational service capacity.
- *Better agency accessibility.* By visiting entrepreneurs in their homes or places of employment, LendRight staff will make credit more accessible for individuals too busy or otherwise

unable to leave their communities to obtain credit. The program's interactive e-mail components will further simplify and expedite agency-client communication.

- *Increasingly proactive case management and client empowerment.* By linking ACCION New York's loan management software with borrowers' e-mail accounts, LendRight can send reminders about impending payments and events and enable borrowers to contact loan officers online.
- *More streamlined and accurate data collection.* By connecting CATS to ACCION New York's network, LendRight will enable loan officers to instantly enter, transfer and access information. Its interactive features will also save time by suggesting which types of documents and assistance entrepreneurs might require.

ACCION New York will disseminate information about LendRight, its programmatic structure, advantages, efficacy and outcomes of its implementation to like-minded practitioners, entrepreneurs and the public. We will design and host a special LendRight section of our website, www.accionnewyork.org, to provide program basics and updates. For entrepreneurs, it will include details on accessing credit, registering for ACCION New York e-mail alerts, applying for loans and attending events, while for funders and community stakeholders, it will detail the program, and include relevant statistics on African-American and Hispanic entrepreneurs' historic inability to access bank loans.

ACCION New York will also spread information about LendRight in the virtual and print version of our quarterly newsletter and through articles in local and major City publications (Appendix: attached examples of ACCION in the news).

To inform other practitioners of LendRight's success, and receive important feedback on the program's construction and continued implementation, ACCION New York will also disseminate information in a more institutionalized way. Our network of ACCION affiliates presents a forum for these activities at affiliates' quarterly 'BrainTrust' meetings where executives and managerial staff from around the network meet for multi-day summits to discuss issues of importance to individual organizations. By presenting seminars on LendRight at these gatherings, ACCION New York will not only obtain valuable feedback—we will set the stage for the networks' adaptation and diffusion of these virtual lending ideas.

On the grassroots level, we will depend on word-of-mouth between our borrowers to spread information about our programs. For over twelve years, borrowers have shared information about ACCION New York with each other, resulting in the expansion of ACCION New York's reach into more communities. We hope LendRight will become a lasting community resource in the same sense.

Protection of Human Subjects. No human subjects will undergo research through this initiative.

V. Project Feasibility

Technical Approach. LendRight builds upon existing management information systems housed on database servers at ACCION USA in Boston. ACCION New York connects to these servers through an ISDN frame relay, which we maintain ourselves. While ACCION USA retains our data by contractual agreement, the actual information is managed, converted, and updated by the software vendors themselves. Each month, ACCION affiliate representatives meet to discuss these programs and further customize them.

After an extensive period of testing and modification, CATS will form the basis of LendRight and the newest Front-End part of this system. It is a web based software package that connects to an SQL server. Deployment of web-based software simply requires the web server's IP address and a web browser. This is a great departure from Accion NY's current front-end system which is a customized Microsoft Access database. ANY's current front-end database lacks reliable remote connectivity and does not have the capabilities of transferring data to and from the back end loan management and general ledger system, Cube.

LendRight will correct many of ACCION New York's technological inefficiencies and shortcomings. The CATS software will have the same data storage agreements that we have with Cube, where data will be stored in servers at ACCION USA and ACCION New York would need to maintain the same ISDN high speed connection. The Cube software was given to ACCION New York with an interface which would allow other software to communicate and interact with it. However, the current CATS systems will need great modifications if it is to effectively serve ACCION New York's potential clients and constituents. We will keep the current software framework but substantial modifications to CATS based on our future and current lending strategies will need to take place.

Through the purchasing of PDA's, Loan officers would be able to remotely connect to the CATS database. The PDAs will be equipped with wireless broadband modems and a Microsoft word suite which will include Microsoft Word, Excel, Outlook and Internet Explorer. They will then have all the software tools they need to process an applicant. While connecting to CATS via the internet, once all the appropriate financial information is entered and a client's credit report is pulled, Accion NY loan officers would be able to effectively work with potential clients. With the power of the web behind CATS, the potential for growth is very great for ACCION New York.

Applicant Qualifications. ACCION New York has disbursed over \$21 million in 3,800 loans to 2,100 enterprising clients since our 1991 inception—and grown in the process to become the country's second-largest microfinancier. Besides strengthening businesses, our community-based lending and education initiatives help borrowers achieve long-term financial security and self-sufficiency: studies show that our loans raise clients' incomes and standards of living an average of 21% per loan. These facts, combined with our historic 94% repayment rate, attest not only to the viability of our methodology, but also to our position as the region's premier microfinance provider.

ACCION New York has substantial expertise in developing and harnessing network technologies to support lending. In 2000, for example, our staff created and implemented ClientTrak Contact Management as the front-end of a streamlined loan disbursement process. Together with community partners NPower NY, we disbursed over 613 loans through this initiative. (see Appendix on contact management description), and oversaw the hiring of an AmeriCorps VISTA technology volunteer to manage it. Now, with help from Npower NY, consultant Chris Waterfield of ACCION USA, and a talented tech-savvy staff, ACCION New York will implement LendRight. Please see the attached resumes, qualifications and brief biographical sketches of Jordan Pollinger, Alex Stein and Quincy Gambrell, who will provide the in-house impetus to supporting this initiative.

Project Implementation and Completion. Implementation of LendRight will begin as soon as funding is released. At the time of this application, the CATS system has been developed and only requires modification before installation. After an initial period of brief testing, it will be used to launch LendRight according to the three year timetable (see appendix). Because it was designed to be an ongoing, sustainable initiative, ACCION New York will continue using and evaluating LendRight after the grant period concludes.

Privacy and Security. ACCION New York keeps all borrower information confidential.

Sustainability. ACCION New York's desire to maintain LendRight after completing the initial TOP grant period stems from our desire to continually give Hispanic and African-American entrepreneurs access to credit resources. The initiative has thus been designed to accommodate the maintenance—and generate the funding—for long-term use. Through increased borrower payments, for example, LendRight will enable ACCION New York to come closer to achieving scale and independently supporting the program.

Project Budget. As the attached budget states, LendRight's implementation will cost \$716,142. ACCION New York will contribute \$384,242 in matching funds and is requesting \$331,900 from the Department of Commerce.